

Blog Post

WEEKLY MARKET UPDATE

May 6, 2019



Earnings surprise drives Apple back over \$1 trillion market cap. Find out more in this edition of “The Week in Review.”

Last Week Review

Global equities move slightly higher. Global equities gained 0.3% as a weaker dollar helped power emerging markets up 0.4%¹. Non-U.S. developed markets returned 0.2% and U.S. equities generated a weekly return of 0.3% – recovering on Friday given the strong labor market report². Solid double-digit returns across all regions have led to a 16.2% global equity return this year³. Reviewing energy markets, tighter sanctions on Iran’s exports and geopolitical concerns in Venezuela, potentially contributed to a price surge in April. However, reports of increased U.S. and Russia oil supplies led to a drop in Brent and Crude oil for the week, offsetting some of the April gains⁴.

Fed Chair Powell sees low inflation as transitory. March’s core Personal Consumption Expenditure year-over-year (y/y) reading of 1.6% came in below expectations and moved further away from the Federal Reserve’s (Fed) 2% target. Prior to Wednesday’s meeting, investors assigned a 67% probability of a Fed funds rate cut by year end in order to move inflation closer to target level, but Fed Chairman Jerome Powell, in his press conference remarks, characterized recently low inflation prints as transitory. Further, Powell reiterated that the Fed would be patient, watching incoming economic data before making any “insurance cuts”. Reacting to Powell’s comments, investors now view the odds of a rate cut by year’s end to be a coin flip⁵.

Labor market remains strong in Goldilocks report. April’s jobs added figure of 263k jobs shot well over estimates and marks two solid months after a poor 33k figure in February. Wage

inflation was unchanged from last month at 3.2% y/y, while the unemployment rate dropped to 3.6%, the lowest rate in 50 years. Labor market strength continues but a lower jobs added figure for manufacturing (4k) and decreases to manufacturing Purchasing Manager Index (PMI) readings (from 55.3 to 52.8) have some investors concerned. Elsewhere, China's reading moved down to 50.2 from 50.8.

Earnings surprise drives Apple back over \$1 trillion market cap. Apple reported negative revenue and profit growth for the second straight quarter, but surpassed analyst estimates on Wall Street. The positive surprise pushed the price high enough to bring the market cap back over the \$1 trillion mark. CEO Tim Cook expressed optimism as demand in China started picking up after a slowdown in the fourth quarter⁶. Looking broadly at U.S. equities, 390 S&P 500 companies (78%) have reported earnings growth of 1.7% y/y and sales growth of 4.6% y/y. Earnings growth is above expectations, while revenue growth is in near consensus estimates⁷.

This Week Preview

U.S.-China discussions may lead to tentative trade deal. Speculative media reports suggest that a tentative U.S.-China trade deal may be reached by Friday. Negotiators must still work out the sticking points but rumored reports show the possibility of the U.S. removing the 10% tariff on \$200 billion worth of Chinese goods but leaving in the other tariffs to enforce the new agreement. Economic data from China will give investors insight on the state of trade with exports and imports posting on Wednesday. Surveys for Consumer Price Index levels show China's headline figure matching March, while the U.S. is expected to move slightly higher by headline and core measures. Fed officials will watch global inflation reports closely over the near term, especially after Fed chair Powell's comments about "transitory" low inflation⁸.

Walt Disney reports first quarter earnings. Communication services companies are likely to closely watch Disney's (DIS) earnings report as competition between online streaming service companies heats up. Comparing subscribers across companies, Netflix leads the way with about 150 million. Amazon has about 100 million subscribers and Hulu (which is 60% owned by Disney) has 28 million. Alphabet's YouTube TV just crossed the 1 million subscriber threshold. Both Disney and Apple will fight for market share against other streaming companies and traditional cable providers as they enter the market place in the back half of 2019⁹.

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End Notes

1. Bloomberg, MSCI ACWI (All Country World Index) returns 29Apr2019 – 03May2019. Bloomberg, MSCI Emerging Market Equities Index returns 29Apr2019 – 03May2019.
2. Bloomberg, MSCI World ex-U.S. 29Apr2019 – 03May2019. MSCI U.S. Equities IMI Index returns 29Apr2019 – 03May2019.
3. Bloomberg, MSCI ACWI (All Country World Index) 02Jan2019 – 03May2019.
4. Macrotrends WTI Crude Oil Prices- 10 Year Daily Chart. Retrieved on 03May2019 from <https://www.macrotrends.net/2516/wti-crude-oil-prices-10-year-daily-chart>
5. Federal Open Market Committee. (May 1, 2019). Chairman Powell's Press Conference [Interview transcript]. Retrieved on 03May2019 from <https://www.federalreserve.gov/monetarypolicy/files/monetary20190501a1.pdf>
6. CNBC. Leswing, Kif. Apple stock spikes after reporting strong guidance and earning beat. Retrieved on 03May2019 from <https://www.cnbc.com/2019/04/30/apple-earnings-q2-2019.html>
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8. The New York Times. Swanson, Ana. U.S.-China Trade Deal Unlikely to Address Cybertheft or Subsidies. Retrieved on 03May2019 from <https://www.nytimes.com/2019/05/02/us/politics/us-china-trade-deal-cybertheft.html?partner=IFTTT>
9. Bloomberg. S&P 500® Telecom Index performance 29Apr2019-03May2019. Comprising those companies included in the S&P 500 that are classified as members of the GICS® telecom sector.